BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF DELAWARE

IN THE MATTER OF INTEGRATED RESOURCE PLANNING FOR THE PROVISION OF STANDARD OFFER SUPPLY SERVICE BY DELMARVA POWER & LIGHT COMPANY UNDER 26 DEL. C. § 1007(c) & (d): REVIEW OF INITIAL RESOURCE PLAN SUBMITTED DECEMBER 1, 2006 (OPENED JANUARY 23, 2007, PSC DOCKET NO. 07-20

May 3, 2007 Comments of Jeremy Firestone on the April 4 Independent Consultant IRP_RFP Report

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These comments supplement the Preliminary Comments of Jeremy Firestone on the April 4 Independent Consultant IRP_RFP Report that I filed on April 27, 2007. The concern the Independent Consultant's May 1, 2007 Addendum to that report and the May 2, 2007 PSC Staff Review and Recommendations on Generation Bid Proposal.

I agree with PSC staff that "new generation in Delaware is critical for Delaware's energy independence," that without new generation "other marketers have the ability to significantly influence market prices," and that new generation has not and will not "put a chilling effect on conservation. I also wholeheartedly endorse the PSC Staff conclusion the offshore wind power bid offers "reliable energy with economic, socio-economic and environmental benefits to Delawareans and Delmarva ratepayers. I also acknowledge the PSC Staff for the recommendation that Delmarva be ordered to enter into good faith negotiations with Bluewater. The details of the Staff's report and recommendation, however, raise some concerns, and it is to those details that I now turn.

1. Wind project size, pricing and timeliness

The Staff recommends a wind farm of only 200-300MW. First, it is not clear whether Staff is recommending a 300MW cap on power at anyone time (like the former BWW Full bid) or all the power from a smaller 200-300 MW project (rather than 600MW). If the latter, that is probably a death sentence for the offshore wind bid. First, it would increase costs due to the loss of economies of scale. Second, it would require Bluewater to renegotiate all of its contracts with subcontractors and suppliers, resulting in significant delay. The resulting re-bid price could be 40 to 100% higher as well. If on the other hand, the staff was referring to a 300MW cap, Bluewater could conceivably continue to build a 600 MW project. However, because Bluewater would have to potentially sell more power on the spot market, Bluewater would likely require a higher price from Delmarva to compensate.

A 300 MW capped bid would be greater overall MWhs on average (at least 135MW and perhaps as much as 150MW) than the previously bid 400 BWW Partial (131 MW average). Because the existing Bluewater Partial Bid would not exceed total Delmarva SOS load (see below) at any one time (or only rarely so, which could be addressed in negotiations), and the bid already exists there is no justification (and staff did not even attempt to make one) why Delmarva should not be instructed to negotiate with Bluewater over the Bluewater Partial Bid. Such an approach would be consistent with the intent of the staff recommendation.

In addition, because the RFP was specifically bid at 400MW after much discussion on the record, it seems inappropriate to change the rules of the game now. Finally, I do not believe the PSC ever concluded that BWW's Full bid was non-conforming and indeed refused to adopt the Staff's position when it over-road the Staff's objection and allowed Bluewater to file the Full Bid. In any event, nothing in the staff report would justify a re-engineering that would lead to both delay and to higher cost of electricity. If the reason for limiting the size of the wind PPA is to reduce price risk, that should be achieved by the limit on contract size as bid, which would also increase the cost of electricity but by much less than re-engineering to a smaller project.

<u>2. Delmarva, the Independent Consultant and PSC staff all have inappropriately "filled-in" the Bluewater bid prices with natural gas</u>

As is clear from the docket, I objected long and hard to the decision to include price as a bid criteria. And I also argued for disclosure of bid price without success. Now I learn for the first time that the bid price numbers presented to the public were not the bid prices, but the bid price filled in with other supply to even out load. This most impacts Bluewater and I had never understood Bluewater's bid to include a commitment to even out load, so one can only assume this is a Consultant/Staff decision.

The staff report has two revealing statements. First, "the evaluation relied on the wholesale market when, at times, the bid's new generation is under or over supplying the SOS energy need." p. 24. And second, "Finally, the SOS cost associated with Bluewater's bid would increase to over $105/MWh towards that latter half of its contract duration, despite the fixed real price of the bid, due to increasing costs of market purchases to meet the remainder of SOS needs." p. 36. This implies that Bluewater's Full Bid price has been inflated to reach the levelized cost of $98.21MWh based on an assumption of purchasing additional supplies on the market, including natural gas (we know it includes natural gas purchases, as Bluewater's bid moves drastically with fluctuations in natural gas prices as evidenced by the Independent Consultant's report and addendum. This in turns suggests that the levelized costs of Bluewater's bids are in fact closer to market than disclosed.

3. The Bluewater bid at high natural gas prices is essentially breakeven with the market.

The Independent Consultant, in his Addendum, estimates the market price for the 30% Higher Gas Scenario at $97.73/MWh. We can compare this to Bluewater's Full bid at $98.21/MWh. Thus, Bluewater's bid is $0.48/MWh above market (it actually is less than $98.21/MWh, because as noted above, the consultant filled in Bluewater's actual bid with natural gas market purchases). Given that the Bluewater Full Bid will only be a percentage of residential load, even if all of the $0.48/MWh is allocated to residential customers (see SOS load below for why it should not be), the average residential rates would increase by less than 20 cents/month under this high gas price scenario.

4. The SOS load for long-term contracts is larger than advertised.

I have argued previously that the HB6 is concerned with the entire SOS load and not just SOS RSCI. This is confirmed by the staff report, at page 1, footnote 1—defining it as those who do not receive their energy supply from a third-party. The staff, after noting there are various customer classes that could be considered (see pp. 44-45) to determine load need, uses only the RSCI SOS, but does so without justification. In addition, HB6 provides that Delmarva must purchase 30% of SOS load at auction, but the staff treats this requirement as applying separately within each customer class. There is, however, no basis in the law for the staff position. Both of these are critical points, for together they led to staff to arrive at 400MW of estimated additional supply needed over and above the 30%. If the contract size were set based on this refined (and correct) definition of SOS load and timing of auction purchases, the graphs provided by Delmarva would be revised and show that the 400 MW would rarely exceed the load being served. Thus the customer class is essential in deciding the appropriate size of the contract.

5. A Natural Gas Plant in Southern Delaware should be considered as part of the IRP not the RFP

The staff recommended that Delmarva negotiate with Conectiv for a natural gas plant in southern Delaware. Whatever the merits of such a proposal, it does not belong as part of the RFP and should be considered as part of the IRP. It also is inappropriate to direct Delmarva to enter into negotiations over a natural gas plant in Southern Delaware without consideration by the Public Advocate and without full public debate. Those who might live in the vicinity in particular should have notice and an opportunity to be heard in writing and at a public hearing prior to the PSC adopting such a course of action.

While there may be some merit to the staff's conclusion, the natural gas bid does not conform to the statutory standard because it is not price stable, one of the threshold criteria of the statute. Indeed, the "price" bid is not even a firm price to begin with let alone ten years after it commences operation, as its initial price will not be set for several years (natural gas prices have been very unstable in just the few months since the bidding). On that basis alone, it should be considered further as part of the RFP and must be rejected. The staff tries to get around the bid's lack of price stability by bootstrapping the natural gas bid to the wind bid. "Taken together, …should have a positive impact on price stability. p. 65. The PSC staff also reached its conclusion because it misunderstood the mission of the State Agencies, believing that the “central question that the State Agencies should consider is whether any of the bids are an appropriate match for Delaware’s energy needs” rather than whether the bids conform to the statutory criteria for selection (p. 55).

Moreover, given that staff’s natural gas proposal is for an entirely new location and one that adds substantial complexity due to infrastructure needs, that existing natural gas bid is 10 years while the wind bid is for 25, and that an off-the-shelf natural gas plant could be built much more quickly than an offshore wind farm, the Legislature and/or the PSC could set up a separate bid/self-bid for natural gas bid in southern DE to match wind bid once the particulars of an approved wind bid are known should it be deemed desirable at that time. It does not make sense to have three-way negotiations among two bidders and one buyer. Delmarva should enter the bidding with the price-stable project, Bluewater Wind, knowing that the PSC may either direct or authorize it to subsequently negotiate with a natural gas supplier for any needed fill-in power.

Further, there may be other options not considered such as re-ramping up currently-idle natural gas capacity in Dover with some transmission upgrades to downstate, etc. that might prove more beneficial and be cheaper. Also, since the staff proposal is really outside the bounds of what was bid on, it may be appropriate to open up any fill-in bid to other bidders, including owners of idled gas generators, other providers such as NRG, and to consider the possibility of a self-bid by Delmarva for fill-in power--again, if that is needed after the wind project size and terms are settled upon.

Respectfully submitted,

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3 May 2007